

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 91-641-W/S - ORDER NO. 93-510 ✓  
JUNE 9, 1993

IN RE: CAROLINA WATER SERVICE, INC. -	)	ORDER
APPLICATION REQUESTING AN INCREASE	)	GRANTING REQUESTS
IN ITS RATES AND CHARGES	)	FOR
	)	RECONSIDERATION

This matter is before the Public Service Commission of South Carolina (the Commission) on Carolina Water Service, Inc.'s (CWS' or the Company's) Petition for Reconsideration and the Consumer Advocate for the State of South Carolina's (Consumer Advocate's) Petition for Rehearing, Reconsideration, and Clarification of Order No. 93-402. Order No. 93-402 granted CWS an increase in its rates and charges for water and sewer service.

After review of CWS' and the Consumer Advocate's Petitions, the record from this proceeding, and the applicable law, the Commission hereby grants the Petitions for Reconsideration. The specific issues raised by the separate Petitions are addressed below.

Petition by Carolina Water Service

CWS asks the Commission to clarify the procedure for approval of its bulk water contracts. The Commission clarifies Order No. 93-402 regarding this issue as follows.

CWS shall submit its bulk water contracts to the Commission

for approval. The contracts must contain safeguards which sufficiently insulate CWS' customers from discriminatory treatment by the bulk water supplier. The submission of these contracts will be noticed to the public in accordance with the Commission's standard procedures. Interested parties will have an opportunity to intervene at that time. If the initial contract between the bulk water supplier and CWS is approved by the Commission, CWS will thereafter be required to notify its customers of the supplier's intent to increase its rates. This notice shall be sufficiently in advance of the supplier's intended rate increase.

CWS requests clarification of certain language in Order No. 93-402 regarding complaints about water quality. The Commission clarifies Order No. 93-402 to state that, once CWS enters into bulk water supply contracts, the Commission expects that the number of complaints regarding the quality of water should be drastically reduced.

In Order No. 93-402 the Commission determined it was appropriate to remove certain expenses associated with CWS providing management services to Keowee Key Utilities, Inc. CWS contends that as of April 30, 1993, it ceased operating the Keowee Key system and, therefore, the allocated expenses should be returned to CWS and recovered from its ratepayers. The Commission disagrees.

The Commission concludes that CWS' April 30, 1993, decision to cease providing services to Keowee Key Utilities, Inc. was made after the conclusion of the hearing in this matter and was far

beyond the close of the June 30, 1992 test year. Consequently, the Commission determines that CWS' proposed adjustment does not meet the known and measurable test for ratemaking purposes. Therefore, the Commission refuses to reconsider this issue.

CWS contends the Commission erred by refusing to adopt its proposal to be regulated through the rate of return, rather than the operating margin, methodology. The Commission disagrees.

The Commission has authority to regulate the rates of water and sewer utilities. Within that authority the Commission has the discretion to determine the appropriate method of regulation. In its discretion the Commission has determined that, at least for present purposes, it will regulate CWS' rates by establishing a fair and reasonable operating margin. The Commission concludes there has been no error at law by refusing to regulate the Company's rates by establishing a rate of return.

Finally, CWS contends that because unemployment in South Carolina is currently less than it was in 1990 when the Commission approved a 10.42% operating margin, rather than the current 7.52%, the Commission's consideration of the state of the economy is erroneous. The Commission disagrees.

The Commission concludes that it may consider the economy in establishing the appropriate operating margin. Unemployment is but one factor which illustrates the state of the economy. Accordingly, even though the unemployment rate may be improving, the Commission finds no error in considering the overall state of the economy in establishing CWS' operating margin. The Commission

denies the Petition on this issue.

Petition by the Consumer Advocate

The Consumer Advocate contends that the Commission failed to consider whether smaller and less expensive computer systems could meet the data processing needs of the Company. The Commission disagrees.

In Order No. 93-402 the Commission determined that the Company had demonstrated that its existing computer system is less expensive than other alternatives. Consequently, the Commission found it would be inappropriate to require CWS to use a less sophisticated computer system. The Commission further concluded that there was no convincing evidence as to waste, inefficiency, or mismanagement in regard to the Company's computer expenses. Therefore, the Commission denies the Petition on this issue.

The Consumer Advocate contends that the Commission failed to consider whether the functions provided by CWS' employees were necessary in order to provide its customers with reasonable and adequate service. The Commission disagrees.

In Order No. 93-402 the Commission addressed the Consumer Advocate's argument regarding the potential for duplication of effort by having several levels of management. The Commission found the testimony of Company witnesses Murphy and Wenz convincing and concluded that there was no duplication of effort on either a statewide or Company-wide basis. The Commission denies the Petition on this issue.

The Consumer Advocate argues that the Commission failed to

address the issue of whether plant impact fees should be escrowed. The Commission recognizes this oversight and concludes that plant impact fees which are collected on a prospective basis should be escrowed in order to ensure that funds are available when the Company makes capital investments.

The Consumer Advocate argues that CWS arbitrarily allocated its cost between distribution expenses and supply expenses to determine the appropriate distribution charge for those customers who will receive bulk water.<sup>1</sup> The Commission disagrees.

Company witness Demaree fully explained how CWS allocated its costs between distribution and supply expenses.<sup>2</sup> TR. Vol. 2, p. 75, lines 7-20; p. 91, lines 2-21; p. 92, line 14 - p. 98, line 19. Although the Company did not provide a cost of service study to support the allocation, the Commission concludes that the Company's experience sufficiently enabled it to determine the relative expenses attributable to the supply and distribution of water. The Commission finds the Company's testimony regarding the allocation credible. Therefore, the Commission denies the Consumer Advocate's Petition on this issue.

The Consumer Advocate asserts that the Commission erred by requiring the Company to file justification for the use of the services of its affiliate, Land and Lab Technologies, in its next

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1. CWS proposed a distribution charge of \$1.81/thousand gallons. The Commission approved a distribution charge of \$1.50/1,000 gallons.

2. Hearing Exhibit No. 5 depicts the Company's allocations.

rate case application. Instead, the Consumer Advocate contends that CWS should be required to make this filing on an annual basis. The Commission agrees that it intended to require an annual filing and that Order No. 93-402 should be clarified to note this change.

The Consumer Advocate argues that the Commission should reconsider its decision to allow CWS to include rate case expenses associated with the withdrawn portion of this case. The Commission disagrees.

In Order No. 92-274 (April 8, 1992) the Commission granted CWS' Petition to withdraw its rate case application without prejudice. The Commission found CWS' grounds for its Petition, that it wished additional time to evaluate the costs and benefits of several major projects and to inform its customers as to those costs and benefits, sufficient to grant the withdrawal.

The Commission finds that CWS should be allowed to recover its rate case expenses associated with the withdrawn portion of this rate case because the Commission previously found the reasons for the Company's withdrawal sufficient. The Commission concludes it would be fundamentally unfair to grant a petition to withdraw without prejudice and then deny the expenses associated with the rate case application. Further, as noted in Order No. 93-402, there is no indication of imprudence or bad faith on the part of CWS for withdrawing its original application in this docket.

Additionally, the Consumer Advocate asserts the Commission should reconsider the inclusion of rate case expenses associated with its rate filing in Docket No. 88-241-W/S because the Company's

application was denied. While this argument has some merit, on the basis of this record, the Commission concludes it is appropriate to include the rate case expenses.<sup>3</sup>

In Docket No. 88-241-W/S the Commission denied the Company's request for a general rate increase. Nonetheless, the Commission did grant CWS an additional \$20,460 in operating revenues to enable the Company to collect the expenses it would incur in collecting, maintaining the lines, and billing customers in the Okatee Subdivision for sewage treatment by Berkeley County. See Order No. 89-573, Docket No. 88-241-W/S (June 5, 1989) pages 31-32. During the hearing in this prior proceeding, the Consumer Advocate did not dispute the Company's rate case expenses and, in fact, proposed that the Commission accept the Company's estimated rate case expenses.<sup>4</sup> The Commission concludes it is inconsistent for the Consumer Advocate to argue now that CWS should not be allowed to recover the remaining amortized portion of its rate case expenses from that prior proceeding. Accordingly, the Commission denies the Consumer Advocate's Petition on this issue.

Finally, the Consumer Advocate states it is unclear whether the Commission allowed recovery of exercise related expenses and charitable contributions. The Commission disallowed both of these expenses in its discussion of non-allowables. Order No. 93-402, p.

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3. The Commission will consider this issue on a case by case basis.

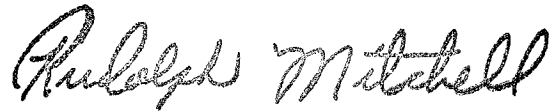
4. The Commission only accepted the Company's actual rate case expenses.

12.

For the reasons stated above, the Commission grants the Petitions for Rehearing and reconsiders and/or clarifies certain portions of Order No. 93-402.

IT IS SO ORDERED.

BY ORDER OF THE Commission:



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Vice Chairman

ATTEST:

  
Executive Director

(SEAL)